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United Canadian Shares Limited

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31ST, 1975



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UNITED CANADIAN SHARES LIMITED

Board of Directors

JAMES H. ASHDOWN

CLARENCE E. ATCHISON

G. MONTEGU BLACK III

D. STEELE CURRY

JAMES M. DOWLER

DOUGLAS D. EVERETT

WILLIAM L. PALK

CONRAD S. RILEY

J. DEREK RILEY

HARLEY B. VANNAN

Officers

President

CONRAD S. RILEY

Vice-President

CLARENCE E. ATCHISON

Treasurer

JOHN H. McCALLUM

Secretary

W. BURTON GRESHAM

Assistant Secretary

MURRAY J. HUTTON

SHARE TRANSFER AGENTS: Montreal Trust Company
Vancouver, Calgary, Winnipeg, Toronto, Montreal and Halifax

UNITED CANADIAN SHARES LIMITED

REPORT OF DIRECTORS

TO THE SHAREHOLDERS:

We present herewith the audited Balance Sheet and Statement of Income and Retained Earnings and the Auditors' Report thereon for the year ended December 31, 1975.

As the Company owns all outstanding shares of The Canadian Indemnity Company we include in detail the Directors' Report, audited Balance Sheet and Financial Statements and notes thereon of The Canadian Indemnity Company.

The activity of United Canadian Shares Limited throughout the year involved only the receipt of dividends from The Canadian Indemnity Company and the distribution of a like amount as dividends to shareholders of United Canadian Shares Limited. During the previous year, 1974, it became apparent that The Canadian Indemnity Company was incurring underwriting losses in excess of investment income and it was deemed prudent to defer the payment of dividends by that company so long as this situation prevailed. As a result of the improvement in the underwriting results in the first half of 1975, the decision was made to resume the payment of quarterly dividends commencing August 1, 1975. The rate of dividend per share paid by The Canadian Indemnity Company to United Canadian Shares Limited was on the same basis as the rate being paid at the time the dividends were deferred. In 1975 The Canadian Indemnity Company distributed as a dividend \$352,000 and declared a further \$176,000 as payable in February 1976. The amount of dividend received by United Canadian Shares Limited was distributed to its shareholders on the basis of 11¢ per share per quarter in August and November.

There were no expenses charged to the Company during the year.

The net earnings for the year 1975 of The Canadian Indemnity Company were \$2,551,000. In terms of United Canadian Shares Limited this amounts to \$1.59 per share compared to last year's loss of 59¢ per share.

It was not an easy year for the general insurance industry, and the Board of Directors appreciate the efforts of Management and Staff for their substantial accomplishments in 1975.

On behalf of the Board,

CONRAD S. RILEY,
President.

January 28, 1976.

UNITED CANADIAN SHARES LIMITED

BALANCE SHEET

As at December 31, 1975 and 1974

	1975	1974
ASSETS		
Cash	\$ 1,946	\$ 1,946
Dividends receivable	176,000	—
Investment in subsidiary company (Note) ..	12,354,026	11,831,042
	<u>\$12,531,972</u>	<u>\$11,832,988</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends declared payable	\$ 176,000	\$ —
Capital		
Authorized—		
12,000,000 shares of no par value		
Issued and fully paid—		
1,600,000 shares	\$ 1,532,562	\$ 1,532,562
Paid-in surplus	2,732,542	2,732,542
Retained earnings	8,090,868	7,567,884
	<u>\$12,355,972</u>	<u>\$11,832,988</u>
	<u>\$12,531,972</u>	<u>\$11,832,988</u>

ON BEHALF OF THE BOARD:
 CONRAD S. RILEY, *Director*
 HARLEY B. VANNAN, *Director*

STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1975 and 1974

	1975	1974
INCOME		
Net Income (Loss) of		
The Canadian Indemnity		
Company (Note)	<u>\$ 2,550,984</u>	<u>\$ (942,507)</u>
RETAINED EARNINGS—		
BEGINNING OF YEAR	<u>7,567,884</u>	<u>10,362,391</u>
	\$10,118,868	\$ 9,419,884
Increase in the investment reserve of		
The Canadian Indemnity Company	<u>1,500,000</u>	<u>1,500,000</u>
	\$ 8,618,868	\$ 7,919,884
Dividends Declared	<u>528,000</u>	<u>352,000</u>
RETAINED EARNINGS—END OF YEAR	<u>\$ 8,090,868</u>	<u>\$ 7,567,884</u>
NET INCOME (LOSS) PER SHARE	<u>\$1.59</u>	<u>(59)c</u>

NOTE TO THE FINANCIAL STATEMENTS

Accounting Basis

The investment in The Canadian Indemnity Company which is 100% owned is shown on the equity basis of accounting, the effect of which is to include in these financial statements the net income (loss) and retained earnings of the subsidiary company using statutory accounting practices in compliance with the Canadian and British Insurance Companies Act. The conversion of The Canadian Indemnity Company's accounts from a statutory basis to generally accepted accounting principles as used by companies in compliance with the Canada Corporations Act does not significantly alter its net income for the year and its retained earnings at December 31, 1975.

FIVE YEAR INCOME RECORD

(excluding extraordinary items)

	1975	1974	1973	1972	1971
Net Income (Loss) ..	\$2,550,984	\$(942,507)	\$1,135,674	\$2,045,604	\$1,580,446
- Per share	\$1.59	(59¢)	71¢	\$1.28	99¢

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of United Canadian Shares Limited as at December 31, 1975 and the statement of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

Winnipeg, January 26, 1976.

THE CANADIAN INDEMNITY COMPANY

Board of Directors

JAMES H. ASHDOWN
CLARENCE E. ATCHISON
G. MONTEGU BLACK III
D. STEELE CURRY
DOUGLAS D. EVERETT
WILLIAM L. PALK
CONRAD S. RILEY
J. DEREK RILEY
HARLEY B. VANNAN

Officers

Chairman of the Board
Vice-Chairman of the Board
President
Vice-President Finance
Vice-President Underwriting
Vice-President Administration
Vice-President Production
*Vice-President and
United States Manager*
Secretary
Assistant Secretary
Assistant Treasurer

CONRAD S. RILEY
CLARENCE E. ATCHISON
HARLEY B. VANNAN
JOHN H. McCALLUM
GEORGE F. WATTS
JAMES M. DOWLER
W. CULVER RILEY

DANIEL J. ADLER
W. BURTON GRESHAM
MURRAY J. HUTTON
RUDY WILLMS

THE CANADIAN INDEMNITY COMPANY

REPORT OF DIRECTORS

TO THE SHAREHOLDERS:

The results for 1975 show a substantial improvement in the underwriting earnings over 1974. There are still, however, several important areas which require additional underwriting correction.

Gross premiums written were \$75,439,000 compared to \$64,441,000 in the previous year. This significant increase in gross income is in large measure due to higher rates and increased insured values rather than an increase in the number of risk exposures.

The net premiums after reinsurance, including the 15% quota share contract, were \$47,455,000. The growth of net premium income was controlled to be in line with our ability to finance additional business. In Canada there has been a market shortage due to the withdrawal of underwriting companies either from a specific class of business, or from a specific area.

We continue to be affected by inflation in the settlement of losses. We continue our policy of settling losses as quickly as possible to minimize the effect of inflation, and at the same time, provide equitable settlement and service to our policyholders. The net losses incurred in 1975 were \$28,925,000 compared to \$32,284,000 in 1974. Our Claims Department have an ongoing policy of frequent review and updating of loss reserves.

The net written expense ratio for 1975 was 34.63%. This is a reduction of close to 2% and results from revision of agency commission schedules, the contribution to expenses by our reinsurers through increased overriding commissions and a close watch on our general expenses.

The statutory underwriting result for 1975 produced a profit in Canada of \$1,119,000 and an underwriting loss of \$354,000 in the United States, for a net statutory profit for the year of \$765,000. In 1974 we had a combined underwriting loss of \$4,161,000.

The underwriting result while much better than 1974, is modest in relation to premiums written. There are still many problems besetting the general insurance industry, particularly in the automobile business. To adjust to ongoing inflation we must up-grade premium rates and seek insurance to increased values in property lines. Shorter policy terms will permit rate revisions to reflect contemporary economic conditions. The insurance industry is making representation to the Anti-Inflation Board for clarification of its requirements for rate increases. It is expected increases will be approved for classes of business operating at a loss or those that are just marginally profitable.

In the 1974 Annual Report of Directors, reference was made to the British Columbia Government's takeover of automobile insurance. As a result of the

December 1975 Provincial Election, the new government has given the insurance industry a commitment that it will be allowed to compete with the British Columbia Insurance Corporation on a fair and equal basis. A committee of the Insurance Bureau of Canada will be negotiating with the British Columbia Government on appropriate terms and conditions. Due to the lack of current rating information and required changes in legislation, it is unlikely that the industry will be able to re-enter the automobile insurance field in British Columbia before early 1977.

The income from investments in 1975 was \$3,141,000 compared to \$3,070,000 the previous year. However, in 1975 the capital loss from sale of investments was \$53,000 compared to a capital gain in the previous year of \$116,000. In 1974, in accordance with the provisions of the Canadian and British Insurance Companies Act the authorized value of our investments was based by the Department of Insurance on a three year average of the market values. Again using this method in 1975 required an increase in our investment reserve of \$1,500,000. This amount was transferred from tax paid surplus and brings the investment reserve to \$5,000,000.

At the end of 1974 we had a pre-tax reserve of \$4,500,000 for unreported losses. The outstanding loss reserves at the end of 1975 are sufficient to take care of known loss costs as evaluated at that time. However, in view of an increased volume of business and the continuing inflationary trend, the unreported loss reserve was increased by \$500,000 to \$5,000,000.

The combined result of underwriting earnings and net investment income produced an operating income of \$3,854,000 compared to the previous year's operating loss of \$975,000. Dividends were paid or declared by the Company to its owner, United Canadian Shares Limited, in the amount of \$528,000 compared to \$352,000 in the previous year. The result of the operating income less increase in unreported loss reserve, of \$500,000, income taxes of \$803,000 and the transfer from surplus to investment reserve produced an increase in the Retained Earnings Account of the Company of \$523,000. It now stands at \$10,832,000.

1975 was not an easy year for the general insurance industry. The Board of Directors appreciates the efforts of the Management and Staff for their substantial accomplishments in 1975. We are cautiously optimistic that 1976 will produce reasonable growth in the Company along with improved underwriting results and investment earnings.

On behalf of the Board,

CONRAD S. RILEY,
Chairman of the Board.

HARLEY B. VANNAN,
President and Chief Executive Officer.

January 28, 1976.

COMPARATIVE FINANCIAL HIGHLIGHTS

	1975	1974	1973	1972	1971
	000's				
Gross Premium Income	\$75,439	\$64,441	\$60,231	\$57,046	\$51,835
Underwriting Profit (Loss)....	765	(4,161)	198	1,536	1,233
Net Investment Income	3,141	3,070	2,583	2,050	1,841
Government License Fees, Taxes and Income Tax	2,735	1,567	1,798	2,389	2,231
Net Income (Loss)	2,551	(943)	2,096	2,051	1,585
Book Value of Bonds, Debentures and Stocks	45,334	38,486	38,643	38,921	36,032
Unearned Premium Reserve	17,620	16,288	17,945	16,878	14,980
Capital and Retained Earnings	12,332	11,809	14,604	13,212	10,317

INVESTMENT CLASSIFICATION
(Based on Book Value)

	1975	1974
	PER CENT	PER CENT
Bank Term Deposits	14.2	16.4
Bonds and Debentures:		
Governments	32.2	23.4
Corporations	29.2	32.4
Preferred Stocks	13.6	15.5
Common Stocks	10.8	12.3
Total Investments	100.0	100.0

THE CANADIAN INDEMNITY COMPANY

BALANCE SHEET

As at December 31, 1975 and 1974

ASSETS		1975		1974
Cash and bank deposits		\$ 7,319,592		\$ 7,829,008
Agents' balances and accounts receivable		14,103,012		13,419,391
Accrued interest		530,183		490,748
Investments (Notes 1 & 2)				
Bonds and debentures — at amortized cost	\$32,485,006		\$25,697,352	
Stocks — at cost	12,848,905	45,333,911	12,788,792	38,486,144
Guaranteed investments with trust companies — at cost		465,000		425,000
Office buildings and land — at cost....	\$ 1,354,592		\$ 1,354,592	
Accumulated depreciation	252,835	1,101,757	230,992	1,123,600
		<u>\$68,853,455</u>		<u>\$61,773,891</u>
LIABILITIES				
Unearned premiums.....	\$17,619,947		\$16,288,332	
Losses in course of adjustment	21,681,093		21,537,920	
Reinsuring companies and other accounts payable	3,035,163		2,692,442	
Funds withheld under reinsurance treaties	2,676,010		1,149,480	
Income and other taxes	1,332,883		296,342	
Dividends declared payable	176,000	\$46,521,096	—	\$41,964,516
Reserves: Unreported losses	\$ 5,000,000		\$ 4,500,000	
Investments (Note 2).....	5,000,000	10,000,000	3,500,000	8,000,000
SHAREHOLDERS' EQUITY				
Capital				
Authorized —				
50,000 Preferred Shares of a par value of \$100 each				
500,000 Common Shares of a par value of \$10 each				
Issued and fully paid —				
150,000 Common Shares	\$ 1,500,000		\$ 1,500,000	
Retained Earnings	10,832,359	12,332,359	10,309,375	11,809,375
		<u>\$68,853,455</u>		<u>\$61,773,891</u>

ON BEHALF OF THE BOARD:

CONRAD S. RILEY, *Director*
HARLEY B. VANNAN, *Director*

THE CANADIAN INDEMNITY COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1975 and 1974

UNDERWRITING ACCOUNT:	1975	1974
Gross premiums written.....	\$75,438,526	\$64,441,419
Reinsurance premiums paid	27,983,895	22,710,897
Net premiums written	\$47,454,631	\$41,730,522
Increase (Decrease) in unearned premiums	1,331,615	(1,656,966)
Net premiums earned	\$46,123,016	\$43,387,488
Net losses and adjustment expenses incurred	\$28,925,274	\$32,283,542
General operating expenses, including commission.....	14,500,479	13,664,747
Taxes, other than income taxes	1,932,111	1,599,933
	45,357,864	47,548,222
Net Underwriting profit (loss)	\$ 765,152	\$(4,160,734)
INVESTMENT ACCOUNT:		
Net investment income earned	\$ 3,141,149	\$ 3,069,559
Net profit (loss) from sale of investments	(52,696)	115,762
	3,088,453	3,185,321
INCOME (LOSS) FROM OPERATIONS	\$ 3,853,605	\$ (975,413)
DEDUCTIONS:		
Increase in reserve for unreported losses.....	\$ 500,000	\$ —
Income taxes incurred (recovered)	802,621	(32,906)
	1,302,621	(32,906)
NET INCOME (LOSS) FOR THE YEAR	\$ 2,550,984	\$(942,507)
RETAINED EARNINGS — AT BEGINNING OF YEAR	10,309,375	13,103,882
	\$12,860,359	\$12,161,375
Increase in investment reserve (Note 2)	1,500,000	1,500,000
	\$11,360,359	\$10,661,375
Dividends declared	528,000	352,000
RETAINED EARNINGS — AT END OF YEAR	\$10,832,359	\$10,309,375

THE CANADIAN INDEMNITY COMPANY

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the years ended December 31, 1975 and 1974

SOURCE:	1975	1974
Net insurance operations	\$3,551,176	\$ (503,512)
Net investment income.....	3,030,182	3,017,108
Sale of investments	<u>1,547,971</u>	<u>1,433,232</u>
	\$8,129,329	\$3,946,828
APPLICATION:		
Purchase of investments.....	\$8,395,059	\$1,070,680
Income taxes	(108,314)	98,663
Dividends.....	<u>352,000</u>	<u>528,000</u>
	8,638,745	1,697,343
INCREASE (DECREASE)	\$ (509,416)	\$2,249,485
FUNDS—AT BEGINNING OF YEAR	<u>7,829,008</u>	<u>5,579,523</u>
FUNDS — AT END OF YEAR	<u><u>\$7,319,592</u></u>	<u><u>\$7,829,008</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. Quoted market value of investments at December 31, 1975 amounted to \$39,448,000 (1974 — \$31,275,000).

2. Investment Reserve

The Investment Reserve has been calculated in accordance with provisions of the Canadian and British Insurance Companies Act. It is based on the average difference, over the last three years, between the excess of book values of investments over market values authorized by the Department of Insurance.

3. Operations

In 1975 the amount of \$21,843 depreciation on office buildings was charged against income from operations. This is the same amount as was charged in 1974.

In 1975 the company paid fees of \$28,000 to the Directors and an aggregate remuneration of \$339,500 to senior officers, two of whom are Directors. The corresponding figures for 1974 were \$17,950 and \$321,500.

4. Foreign Currency

United States dollar amounts have been included in these statements at par with the Canadian dollar.

AUDITORS' REPORT TO THE DIRECTORS AND SHAREHOLDERS

We have examined the balance sheet of The Canadian Indemnity Company as at December 31, 1975 and the statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the source and application of its funds for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

Winnipeg, January 26, 1976.

COOPERS & LYBRAND
Chartered Accountants

THE CANADIAN INDEMNITY COMPANY

OFFICES

CORPORATE HEAD OFFICE

Winnipeg, R3C 1C3, 333 Main St.

EXECUTIVE OFFICE

Toronto, M5L 1C5, P.O. Box 71,
Commerce Court Postal Station

BRANCH OFFICES CANADA

Halifax, George and Granville Sts.
Montreal, 625 Dorchester Blvd. W.
Toronto, 85 Richmond St. W.
Winnipeg, 333 Main St.
Calgary, 335-8th Ave. S.W.
Edmonton, 10117 Jasper Ave.
Vancouver, 1477 W. Pender St.
Victoria, 1175 Douglas St.

SERVICE OFFICES CANADA

Quebec, 880 Ste. Foy Rd.
Hamilton, 32 James St. S.
London, 383 Richmond St.
North Bay, 222 McIntyre St. W.
Ottawa, 130 Albert St.

UNITED STATES HEAD OFFICE

Los Angeles, 675 S. Park View St.

BRANCH OFFICES UNITED STATES

Los Angeles, 2500 Wilshire Blvd.
San Francisco, 340 Pine St.
Seattle, 2200 Sixth Ave.

SERVICE OFFICES UNITED STATES

OREGON:
Portland, 100 S. W. Market St.

CALIFORNIA:
San Diego, 3443 Camino Del Rio S.
Long Beach, 4220 Long Beach Blvd.
San Jose, 1975 Hamilton Ave.
Burbank, 4405 Riverside Drive
Orange, 363 South Main St.
San Bernardino, 505 N. Arrowhead Ave.
Fresno, 5020 Teilman Ave.



Canadian Indemnity

*This is the advertising symbol of
The Canadian Indemnity Company,
our wholly owned subsidiary company.*